

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name BUCHANAN COMMUNITY SCHOOLS	County BERRIEN
Audit Date 6/30/04	Opinion Date 8/20/04	Date Accountant Report Submitted to State: 9/20/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

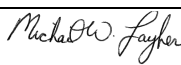
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).	✓		
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) MCMURRAY, MARKS & EDMUNDS			
Street Address 805 VAN BRUNT AVENUE	City ST. JOSEPH	State MI	ZIP 49085
Accountant Signature 		Date 8/20/04	



FINANCIAL REPORT
WITH SUPPLEMENTAL INFORMATION

June 30, 2004

BUCHANAN COMMUNITY SCHOOLS
Buchanan, Michigan
June 30, 2004

BOARD OF EDUCATION

		<u>Term Expires</u>
John Colip	President	June 30, 2006
Marlene Gauer	Vice President	June 30, 2006
Kay Welsh	Secretary	June 30, 2005
Karen Worvey	Treasurer	June 30, 2008
Harvey Burnett	Trustee	June 30, 2007
Mark Skene	Trustee	June 30, 2007
Tom Gordon	Trustee	June 30, 2008

SUPERINTENDENT

David L. Casey

BUSINESS MANAGER

Richard Bell

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Independent Auditor's Report

Board of Education
Buchanan Community Schoolstempte

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Buchanan Community Schools, as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Buchanan Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Buchanan Community Schools as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 4 through 11 and pages 31 to 32 are not a required part of the basic financial statements but are supplemental information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Buchanan Community Schools basic financial statement. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Both the other supplemental information and the schedule of expenditure of federal awards has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 20, 2004, on our consideration of the District's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

McMurray, Marks & Edmunds

McMurray, Marks & Edmunds
August 20, 2004



**Report on Compliance and On Internal Control
Over Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Education of the
Buchanan Community Schools

We have audited the financial statements of Buchanan Community Schools as of and for the year ended June 30, 2004, and have issued our report thereon dated August 20, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Buchanan Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We also noted certain immaterial instances of noncompliance that we have reported to management of Buchanan Community Schools in a separate letter dated August 20, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Buchanan Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Buchanan Community Schools' ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items: 04.1--segregation of duties.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of Buchanan Community Schools in a separate letter dated August 20, 2004.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

McMurray, Marks & Edmunds

McMurray, Marks & Edmunds
August 20, 2004



**Report on Compliance with Requirements Applicable to Each
Major Program and Internal Control Over Compliance
In Accordance with OMB Circular A-133**

To the Board of Education of the
Buchanan Community Schools

Compliance

We have audited the compliance of Buchanan Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Buchanan Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Buchanan Community Schools' management. Our responsibility is to express an opinion on Buchanan Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Buchanan Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Buchanan Community Schools' compliance with those requirements.

In our opinion, Buchanan Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Buchanan Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Buchanan Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

McMurray, Marks & Edmunds

McMurray, Marks & Edmunds
August 20, 2004

Buchanan Community Schools, a K-12 School District located in Berrien County, Michigan, follows the provisions of Governmental Accounting Standards Board Statement 34 ("GASB 34") with the enclosed financial statements. The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be discussion and analysis of the financial results for the fiscal year ended June 30, 2004 of the management of Buchanan Community Schools ("the School District").

Generally accepted accounting principles ("GAAP") and GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual". In the State of Michigan, the District's major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in their relevant funds including: Capital Projects Funds, Debt Service Funds, and the School Service Funds which are comprised of: Food Service and Athletics Funds.

In the fund financial statements, capital assets purchased by cash are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

The School District as Trustee — Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. These are excluded activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Summary of Net Assets

The District had \$5,623,071 and \$5,033,973 in net assets as of June 30, 2004 and 2003, respectively. The net assets of the District are summarized in the table below:

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Assets:		
Cash and cash equivalents	\$ 4,535,789	\$ 2,428,061
Cash - restricted	32,254	-
Due from other governmental units	1,943,083	1,838,574
Net capital assets	11,560,267	9,764,105
Other assets	19,137	30,445
	<u>\$ 18,090,530</u>	<u>\$ 14,061,185</u>
Liabilities:		
Accounts payable and other accrued liabilities	\$ 984,318	\$ 880,545
Notes and bonds payable	11,125,526	7,609,994
Other liabilities	357,615	536,673
	<u>\$ 12,467,459</u>	<u>\$ 9,027,212</u>
Net Assets		
Investment in capital assets - net of related debt	\$ 434,741	\$ 2,154,111
Restricted for:		
Debt service	594,672	498,110
Capital projects	2,160,406	300,851
Other	176,898	151,244
Unrestricted	2,256,354	1,929,657
Total Net Assets	<u><u>\$ 5,623,071</u></u>	<u><u>\$ 5,033,973</u></u>

Analysis of Financial Position

During fiscal year ended June 30, 2004, the District's net assets increased by \$589,098. A few of the significant factors affecting net assets during the year are discussed below:

A. General Fund Operations

The District's revenues from General Fund operations exceeded expenditures by \$150,356 for the fiscal year ended June 30, 2004. See the section entitled Results of Operations, below, for further discussion of General Fund operations.

B. Debt Payments

The District made principal payments on bonded, long term debt obligations which reduced the amount of the district's long term liabilities. Principal payments made during the year ended June 30, 2004 totaled \$340,000 and reduced the 1997 Bonds.

Analysis of Financial Position, Concluded**C. Net Investment in Capital Assets**

The District's net investment in capital assets increased by \$1,796,162 during the year. The net activity for the year is summarized in the following table:

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Capital Assets	\$ 15,911,198	\$ 2,164,388	\$ -	\$ 18,075,586
Less: accumulated depreciation	(6,147,093)	(368,226)	-	(6,515,319)
Net investment capital outlay	<u>\$ 9,764,105</u>	<u>\$ 1,796,162</u>	<u>\$ -</u>	<u>\$ 11,560,267</u>

This year, the School District's additions of \$2,164,388 in capital assets included vehicles, cafeteria equipment, building renovations and school buses. A major portion of these capital assets were financed with bond proceeds of \$3,875,000 received from the 2003 Building & Site Bond. The completion of the auxiliary High School gymnasium will be during 2004 – 2005 fiscal year. Several more major capital projects are planned for the 2004-2005 fiscal year and the anticipated capital additions are expected to be higher than the 2003-2004 fiscal year. The School District does not own any infrastructure assets.

D. In 1997, Buchanan Community Schools' voters approved a \$7,415,000 million, general obligation, refunding bond issue. The proceeds from the original 1993 bond issue were used for renovating the high school and partially remodeling of existing school facilities, and equipping facilities.

In 2003, the District voters approved a \$3,875,000 million, general obligation bond issue for a new auxiliary high school gymnasium and remodeling of the existing school facilities.

Results of Operations

The District-wide results of operations for the fiscal years ended June 30 are summarized in the table below:

	June 30, 2004	June 30, 2003
Revenues:		
General Revenues:		
Property taxes levied for general operations	\$ 1,234,094	\$ 1,333,262
Property taxes levied for debt service	846,864	841,766
Property taxes levied for capital projects	157,216	157,727
State of Michigan unrestricted foundation aid	9,579,471	9,520,634
Other general revenues	102,950	109,695
Total general revenues	\$ 11,920,595	\$ 11,963,084
Operating Grants:		
Federal	\$ 784,441	\$ 649,691
State of Michigan	1,159,068	928,071
Other operating grants	-	170,497
Total operating grants	\$ 1,943,509	\$ 1,748,259
Charges for Services:		
Food service	\$ 275,954	\$ 256,963
Other charges for services	177,415	134,284
Total charges for services	\$ 453,369	\$ 391,247
Total revenues	\$ 14,317,473	\$ 14,102,590
Expenses:		
Instruction	\$ 6,598,884	\$ 7,866,669
Pupil services	868,616	-
Support services	4,482,847	4,683,370
Community services	121,797	124,350
Food service	544,711	535,911
Athletics	247,677	237,561
Interest on long-term debt	495,617	387,320
Depreciation	368,226	365,114
Total expenses	\$ 13,728,375	\$ 14,200,295
Increase in Net Assets	\$ 589,098	\$ (97,705)
Beginning Net Assets	5,033,973	5,131,678
Ending Net Assets	\$ 5,623,071	\$ 5,033,973

A. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan unrestricted aid is determined by the following variables:

1. State of Michigan State Aid Act per student foundation allowance,
2. Student Enrollment - Blended at 80 percent of current year fall count and 20 percent of prior year winter count, and
3. The District's non-homestead levy.

Per Student Foundation Allowance

Annually, the State of Michigan sets the per student foundation allowance. The Buchanan Community Schools' net foundation allowance for the fiscal year 2004 was \$6,626 per student. This net amount includes the \$74 per student cut due to a governor's executive order prior to the fiscal year. This amount was decreased over the District's 2002-2003 net foundation allowance of \$6,648 per student.

Student Enrollment

The District's student enrollment for the fall count of 2003-2004 was 1,664 students. The District's enrollment decreased slightly from the prior year count by 27 students. The following summarizes fall student enrollments in the past five years:

<u>Fiscal Year</u>	<u>Student FTE</u>	<u>FTE Change from Prior Year</u>
2003-2004	1,664	(27)
2002-2003	1,691	(25)
2001-2002	1,716	19
2000-2001	1,697	(24)
1999-2000	1,721	(33)

Subsequent to year end June 30, 2004, preliminary student enrollments for 2004-2005 indicate that enrollments may increase by about 90-100 students from 2003-2004.

B. Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes)

The District levies approximately 18 mills of property taxes for operations (General Fund) on Non-Homestead properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property levy for the 2003-2004 fiscal year was \$1,234,094. The non-homestead tax levy has decreased by 3.06 percent over the prior year.

B. Property Taxes Levied for General Operations (General Fund Non-Homestead Taxes), concluded

The following summarizes the District's non-homestead levy over the past five years:

<u>Fiscal Year</u>	<u>Non-Homestead Tax Levy</u>	<u>% Increase from Prior Year</u>
2003-2004	\$ 1,234,094	(3.06)%
2002-2003	1,273,177	1.90%
2001-2002	1,249,312	12.30%
2000-2001	1,112,484	3.50%
1999-2000	1,074,970	2.70%

3.47% Average Increase

C. Debt Fund Property

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead.

For 2003-2004, the District's debt millage levy was 4.2 mills that generated a levy of \$846,864.

D. Food Sales to Students & Adults (School Lunch Program)

The District's food and milk sales to students and adults increased by approximately \$8,800 to \$275,954 from the prior school year. Neither school lunch nor milk prices were increased during the year.

The total revenues from Food Service operations exceeded total expenditures for the year by \$33,817.

General Fund Expenditures Budget Vs. Actual Five Year History

	<u>Expenditures Preliminary Budget</u>	<u>Expenditures Final Budget</u>	<u>Expenditures Final Audit</u>	<u>Variance: Audit vs. Prelim. Budget</u>	<u>Variance: Audit vs. Final Budget</u>
2003-2004	12,426,081	12,246,913	12,511,110	.01%	2.1%
2002-2003	12,560,039	12,492,030	12,316,530	(1.9)%	(1.4)%
2001-2002	12,280,577	12,339,502	12,099,365	(1.4)%	(1.9)%
2000-2001	12,242,685	11,431,660	11,504,467	2.3%	0.6%
1999-2000	11,094,175	11,175,764	11,221,174	1.1%	0.4%
Five Year Average Actual (Over)/Under Budget				1.5%	.04%

General Fund Revenues Budget Vs. Actual Five Year History

	Revenues Preliminary Budget	Revenues Final Budget	Revenues Final Audit	Variance: Audit vs. Prelim. Budget	Variance: Audit vs. Final Budget
1999-2000	11,053,993	11,163,100	11,367,932	2.8%	1.8%
2000-2001	11,285,276	11,784,956	11,872,738	5.2%	0.7%
2001-2002	12,359,201	12,629,836	12,712,402	2.8%	0.7%
2002-2003	12,466,369	12,558,802	12,495,889	0.2%	(0.5)%
2003-2004	12,229,003	12,274,370	12,661,466	3.5%	3.1%
Five Year Average Actual Over/(Under) Budget				2.9%	1.2%

Original vs. Final Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Buchanan Community Schools amends its budget during the school year. For fiscal year June 30, 2004, the budget was amended in November of 2003 and in June of 2004. The June 2004 budget amendment was the final budget for the fiscal year.

Change from Original Budget:**General Fund Revenues:**

Total Revenues Original Budget	\$	12,229,003	100.00%
Total Revenues Final Amended Budget		<u>12,274,370</u>	<u>100.30%</u>
	\$	<u>45,367</u>	<u>.30%</u>

The District's actual general fund revenues differed from the final budget by \$387,096, a variance of 3.1% from final budget.

The final revenue budget reflects the following changes from the original budget:

- The District received more State Aid Foundation monies than originally budgeted, due to higher actual enrollment than projected.

Change from Original Budget:**General Fund Expenditures:**

Total Expenditures Original Budget	\$	12,426,081	100.00%
Total Expenditures Final Amended Budget		<u>12,246,913</u>	<u>98.50%</u>
	\$	<u>179,168</u>	<u>1.50%</u>

Original vs. Final Budget, concluded

The final expenditures budget reflects the following changes from the original budget:

- Certain purchases originally budgeted were not made at or near year-end because the District believes the State Foundation Grant may be frozen in the near future.

Contacting the District's Financial Management

The financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, please contact the Business Office at Buchanan Community Schools.

BUCHANAN COMMUNITY SCHOOLS**STATEMENT OF NET ASSETS
JUNE 30, 2004**

	Governmental Activities
Assets	
Current assets:	
Cash and investments	\$ 4,535,789
Cash-restricted	32,254
Receivables	12,588
Due from other governmental units	1,943,083
Inventories	5,351
Prepaid expenditures	1,198
Total current assets	<u>\$ 6,530,263</u>
Noncurrent assets:	
Capital assets	18,075,586
Less: accumulated depreciation	(6,515,319)
Total noncurrent assets	<u>\$ 11,560,267</u>
Total Assets	<u><u>\$ 18,090,530</u></u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 119,277
Accrued payroll and other liabilities	865,041
Notes and bonds payable, due within one year	549,468
Other obligations, due within one year	178,807
Total current liabilities	<u>\$ 1,712,593</u>
Noncurrent liabilities:	
Notes and bonds payable, due in more than one year	10,576,058
Other obligations, due in more than one year	178,808
Total noncurrent liabilities	<u>\$ 10,754,866</u>
Total Liabilities	<u>\$ 12,467,459</u>
Commitments and Contingencies	
Net Assets	
Investment in capital assets - net of related debt	\$ 434,741
Restricted for:	
Debt service	594,672
Capital projects	2,160,406
Other	176,898
Unrestricted	2,256,354
Total Net Assets	<u>\$ 5,623,071</u>
Total Liabilities and Net Assets	<u><u>\$ 18,090,530</u></u>

See accompanying notes to the financial statements.

BUCHANAN COMMUNITY SCHOOLS

STATEMENT OF ACTIVITIES

JUNE 30, 2004

Functions/Programs	Expenses	Charges for Services	Operating Grants/Contributions	Net (Expense) Revenue and Changes in Net Assets
Primary government -				
Governmental activities:				
Instruction	\$ 6,598,884	\$ -	\$ 1,274,012	\$ (5,324,872)
Pupil services	868,616	-	346,837	(521,779)
Support services	4,482,847	46,075	20,766	(4,416,006)
Community services	121,797	73,529	-	(48,268)
Food services	544,711	275,954	301,894	33,137
Athletics	247,677	57,811	-	(189,866)
Interest on long-term debt	495,617	-	-	(495,617)
Depreciation (unallocated)	368,226	-	-	(368,226)
	<u>\$ 13,728,375</u>	<u>\$ 453,369</u>	<u>\$ 1,943,509</u>	<u>\$ (11,331,497)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				\$ 1,234,094
Property taxes, levied for debt purposes				846,864
Property taxes, levied for capital project purposes				157,216
State aid not restricted to specific purposes				9,579,471
Interest and investment earnings				37,286
Other				<u>65,664</u>
Total general revenues				<u>\$ 11,920,595</u>
Change in Net Assets				\$ 589,098
Net Assets - beginning of year				<u>5,033,973</u>
Net Assets - end of year				<u>\$ 5,623,071</u>

See accompanying notes to the financial statements.

BUCHANAN COMMUNITY SCHOOLS

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General	2003 Building & Site Bond Capital Projects Fund	Non-Major Governmental Funds	Total
Assets				
Cash and investments	\$ 2,402,979	\$ 1,954,997	\$ 177,813	\$ 4,535,789
Cash-restricted	-	-	32,254	32,254
Receivables	12,588	-	-	12,588
Due from other governmental units	1,938,723	-	4,360	1,943,083
Due from other governmental funds	-	-	759,200	759,200
Inventories	-	-	5,351	5,351
Prepaid expenditures	1,198	-	-	1,198
Total Assets	\$ 4,355,488	\$ 1,954,997	\$ 978,978	\$ 7,289,463
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 119,277	\$ -	\$ -	\$ 119,277
Accrued salaries and withholdings	797,848	-	3,197	801,045
Due to other governmental funds	759,200	-	-	759,200
Total Liabilities	\$ 1,676,325	\$ -	\$ 3,197	\$ 1,679,522
Fund Balance				
Reserved for inventories	\$ -	\$ -	\$ 5,351	\$ 5,351
Reserved for prepaids	1,198	-	-	1,198
Reserved for debt service	-	-	594,672	594,672
Reserved for capital projects	-	1,954,997	205,409	2,160,406
Unreserved and undesignated	2,677,965	-	-	2,677,965
Unreserved and undesignated - food service	-	-	167,576	167,576
Unreserved and undesignated - athletics	-	-	2,773	2,773
Total Fund Balance	\$ 2,679,163	\$ 1,954,997	\$ 975,781	\$ 5,609,941
Total Liabilities and Fund Balance	\$ 4,355,488	\$ 1,954,997	\$ 978,978	\$ 7,289,463

See accompanying notes to the financial statements.

BUCHANAN COMMUNITY SCHOOLS**RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS TO NET ASSETS
YEAR ENDED JUNE 30, 2004**

Total Fund Balances - Governmental Funds **\$ 5,609,941**

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds:

Cost of the capital assets	18,075,586
Accumulated depreciation	(6,515,319)

Long-term liabilities are not due and payable in the current period
and are not reported in the funds:

Bonds payable	(11,125,526)
Accrued severance pay	(357,615)

Accrued interest payable is not included as a liability in governmental activities	<u>(63,996)</u>
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Total net assets - Governmental activities **\$ 5,623,071**

See accompanying notes to the financial statements.

BUCHANAN COMMUNITY SCHOOLS

STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2004

		2003		
		Building & Site Bond Capital Projects Fund	Other Nonmajor Government al Funds	Total
	General			
Revenues				
Property taxes	\$ 1,234,094	\$ -	\$ 1,004,080	\$ 2,238,174
Local sources	185,268	-	333,765	519,033
State sources	10,513,358	-	26,094	10,539,452
Federal sources	508,641	-	275,800	784,441
Interdistrict sources	199,086	-	-	199,086
Earnings on investments	21,019	14,632	1,636	37,287
Total Revenues	<u>\$12,661,466</u>	<u>\$ 14,632</u>	<u>\$ 1,641,375</u>	<u>\$ 14,317,473</u>
Expenditures				
Current:				
Instruction	\$ 6,777,942	\$ -	\$ -	\$ 6,777,942
Pupil services	868,616	-	-	868,616
Supporting services	4,353,134	-	822,644	5,175,778
Community services	121,797	-	-	121,797
Debt service	-	-	-	-
Capital outlay	78,076	1,896,135	190,177	2,164,388
Intergovernmental payments	118,925	-	-	118,925
Total Expenditures	<u>\$12,318,490</u>	<u>\$ 1,896,135</u>	<u>\$ 1,012,821</u>	<u>\$ 15,227,446</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>\$ 342,976</u>	<u>\$(1,881,503)</u>	<u>\$ 628,554</u>	<u>\$ (909,973)</u>
Other Financing Sources (Uses)				
Operating transfers in	\$ -	\$ -	\$ 224,874	\$ 224,874
Proceeds from the issuance of bonds	-	3,875,000	-	3,875,000
Payment to bond escrow agent				
Principal	-	-	(340,000)	(340,000)
Interest and fees	-	(38,500)	(443,464)	(481,964)
Operating transfers out	(192,620)	-	(32,254)	(224,874)
Total Other Financing Sources (Uses)	<u>\$ (192,620)</u>	<u>\$ 3,836,500</u>	<u>\$ (590,844)</u>	<u>\$ 3,053,036</u>
Net Change in Fund Balances	\$ 150,356	\$ 1,954,997	\$ 37,710	\$ 2,143,063
Fund Balances - Beginning of year	2,528,807	-	938,071	3,466,878
Fund Balances - End of year	<u>\$ 2,679,163</u>	<u>\$ 1,954,997</u>	<u>\$ 975,781</u>	<u>\$ 5,609,941</u>

See accompanying notes to the financial statements.

BUCHANAN COMMUNITY SCHOOLS

RECONCILIATION OF STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Net Change in Fund Balances - Total Governmental Funds **\$ 2,143,063**

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures;
in the statement of activities, these costs are allocated
over their estimated useful lives as depreciation.

Depreciation expense	(368,226)
Capital outlay	<u>2,164,388</u>
Total	<u>\$ 1,796,162</u>

Bond proceeds reported in the government funds that provides
current financial resources but is not reported as revenue in
in the statement of activities (3,875,000)

Accrued interest is recorded in the statement of activities when
incurred; it is not reported in governmental funds until paid (13,653)

Repayment of bond principal is an expenditure in the governmental
funds, but not in the statement of activities (where it reduces
long-term debt) 359,468

Decreases in severance pay are reported as expenditures
financial resources are used in the governmental funds in
accordance with GASB Interpretation No. 6 179,058

Change in Net Assets of Governmental Activities **\$ 589,098**

See accompanying notes to the financial statements.

BUCHANAN COMMUNITY SCHOOLS

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2004

	<u>Agency Fund- Student Activities</u>
Assets:	
Cash and cash equivalents	\$ 153,879
Certificate of deposit	16,415
	<u>\$ 170,294</u>
Liabilities:	
Due to student groups	<u>\$ 170,294</u>

See accompanying notes to the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Buchanan Community Schools (the “School District”) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units and with the rules prescribed in the accounting manual by the Michigan Department of Education. The following is a summary of the significant accounting policies used by the School District:

Reporting Entity

The School District is governed by an elected seven-member Board of Education. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (“GASB”) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School Districts’ reporting entity, and which organizations are legally separate, component units of the School District. Based on the application of the criteria, the School District does not contain any component units.

District Wide and Fund Financial Statements

The District-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district’s government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

District-Wide Statements — The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

District-Wide Statements (concluded) — Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based Statements — Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government. The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

The School District reports the following major governmental funds:

The General Fund is the school district's primary operating fund. It accounts for all financial resources of the district, except those required to be accounted for in another fund.

2003 Building & Site Bond Capital Projects Fund is the district's capital project fund for the resources and building expenditures of an auxiliary gym and renovation of the existing gym.

Additionally, the government reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The School Service Funds are Special Revenue Funds that segregate, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts. The School District maintains full control of these funds. The School Service Funds maintained by the School District are the Athletic Fund and Food Services Fund.

Fiduciary Funds are used to account for assets held by the School District in a trustee capacity or as an agent. Fiduciary Fund net assets and results of operations are not included in the government-wide statements. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Fund Based Statements –**

Fiduciary Funds (concluded) — The School District presently maintains a Student Activities Fund to record the transactions of student and parent groups for school and school-related purposes. The funds are segregated and held in trust for the students and parents.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments — Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables — In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. For Buchanan Public Schools taxpayers in the city of Buchanan and Townships of Buchanan, Bertrand, Niles and Ornoko, properties are assessed as of December 31 and the related property taxes are levied and become a lien on July 1 for 100 percent of the taxes which are due September 15. These Townships represented 99.1 percent of the District’s taxable valuation for the 2003 levy. Townships, which represent 0.9 percent of the taxable valuation, levy taxes in December. The final collection date is February 28, after which uncollected taxes are added to the Berrien County delinquent tax rolls.

The State of Michigan utilized a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state’s School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the State of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year is recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Inventories and Prepaid Items — Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. United States Department of Agriculture Commodities inventory received by the Food Service Fund are recorded as inventory and deferred revenue until used.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories and Prepaid Items (concluded) — Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements

Capital Assets — Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized. The school district does not have infrastructure type assets. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years
Land Improvements	10-20 years

Compensated Absences — The liability for compensated absences, if any, reported in the government-wide statements consists of unpaid, accumulated annual and vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

Long-Term Obligations — In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity — In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data — Comparative data is not included in the district's financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

Accounting— The School District follows the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* ("GASB 34"), and accordingly, the School District's financial statements present the following:

A Management's Discussion and Analysis ("MD&A") section providing analysis of the School District's overall financial position and results of operations has been included.

District-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using full accrual accounting for all of the School District's activities have been provided.

Estimates — The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates and assumptions regarding certain types of assets, liabilities, revenues and expenditures.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e. the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the district to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits districts to amend its budgets during the year. There were two amendments during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be re-appropriated and honored during the subsequent year. There were no encumbrances at year-end.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY, (CONCLUDED)

Excess of Expenditures Over Appropriations in Major Budgeted Funds - The school district had expenditures that exceeded appropriations in the following budgeted functions:

General Fund

<u>Function</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Instruction-Elementary	\$ 2,223,276	\$ 2,367,792	\$ (144,516)
Instruction-Middle School	1,184,225	1,252,650	(68,425)
Instruction-Preschool	199,076	235,909	(36,833)
Instruction-Summer School	17,086	47,867	(30,781)
Instruction-Special Education	312,084	911,914	(599,830)
Instruction-Alternative Education	50,768	52,757	(1,989)
Support services-improvement of instruction	55,384	105,519	(50,135)
Support services-Library	317,805	321,808	(4,003)
Support services-Direction of instructional staff	42,761	98,711	(55,950)
Support services-Executive	207,323	215,603	(8,280)
Support services-Operations	1,294,009	1,454,283	(160,274)
Support services-Other pupil activity	-	5,050	(5,050)
Capital outlay	-	78,076	(78,076)
Operating transfers out	190,500	192,620	(2,120)

2003 Building & Site Capital Projects Fund

Capital Outlay	\$ -	\$ 1,896,135	\$ (1,896,135)
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Funds sufficient to provide for the excess expenditures were made available from other functions within the fund, and the excess had no impact on the financial results of the district.

NOTE 3. OPERATING LEASES

The School District leases office equipment under various operating leases. Rent expense was \$2,945 for the fiscal year ended June 30, 2004. Future minimum rentals are as follows: 6/30/05-\$4,263; 6/30/06-\$2,987.

NOTE 4. 2003 BUILDING & SITE BOND EXPENDITURES

The 2003 Building & Site Bond Capital Projects Fund included capital project activities funded with bonds issued after May 1, 1994. For these capital projects, the school district has complied with applicable provisions of section 1351a of the revised school code.

NOTE 5. DEPOSITS AND INVESTMENTS

At year-end, the school district's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and cash equivalents	\$ 2,138,827	\$ 153,879	\$ 2,292,706
Cash-restricted	32,254	-	32,254
Certificate of deposits	-	16,415	16,415
Investments	2,396,962	-	2,396,962
	<u>\$ 4,568,043</u>	<u>\$ 170,294</u>	<u>\$ 4,738,337</u>

The breakdown between deposits and investments for the school district is as follows:

Deposits (checking and savings accounts)	\$ 2,324,460
Certificate of deposits	16,415
Investments in securities, mutual funds, and similar vehicles	2,396,962
Petty cash and cash on hand	500
	<u>\$ 4,738,337</u>

The deposits of the School District were reflected in the accounts of the Financial Institutions at \$2,608,280, of which \$200,000 is covered by federal depository insurance. State statutes and the School District's investment policy authorize the district to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan; the district is allowed to invest in U.S. Treasury or Agency obligation, U.S. Government repurchases agreements, bankers' acceptances, commercial paper rated prime at the time of purchases which mature not more than 270 days after the date of purchases, mutual funds and investment pools that are composed of authorized investment vehicles. The School District's deposits are in accordance with statutory authority.

The School District's investments at June 30, 2004 were bank investment pools and interlocal agreement investment pools that had a carrying amount and market value of \$2,396,962. The bank investment pools are regulated by the Michigan Banking Act and the investments under the interlocal agreement (MILAF) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares.

Investments are normally categorized to give an indication of the level of risk assumed by the School District; however, bank investment pools and interlocal agreement investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above.

NOTE 6. RECEIVABLES AND PAYABLES

Receivables as of year-end for the School District's individual major funds, and the non-major funds and fiduciary funds in the aggregate, including any allowance for uncollectible amounts are as follows:

	General Fund	Nonmajor and Other Funds	Total
Receivables:			
Intergovernmental	\$ 1,938,723	\$ 4,360	\$ 1,943,083
Trade	12,588	-	12,588
	<u>\$ 1,951,311</u>	<u>\$ 4,360</u>	<u>\$ 1,955,671</u>

Payables as of year-end for the School District's individual major funds, and the non-major and fiduciary funds in the aggregate, are as follows:

	General Fund	Nonmajor and Other Funds	Total
Payables:			
Trade	\$ 119,277	\$ -	\$ 119,277
	<u>\$ 119,277</u>	<u>\$ -</u>	<u>\$ 119,277</u>

NOTE 7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The general fund collects monies that relate to the capital projects and debt service funds and repays those monies as expenditures are incurred, which could be in excess of one year. The general fund also transfers monies to the athletic fund to subsidize athletic activities.

The composition of interfund balances is as follows:

Due To/From Other Funds:

Receivable Fund	Payable Fund	Amount
Other Governmental Funds	General Fund	<u>\$ 759,200</u>

Interfund Transfers:

Transfer In:	Transfer Out:	Amount
Other Governmental Funds	General Fund	<u>\$ 224,874</u>

NOTE 8. CAPITAL ASSETS

Capital asset activity of the School District's governmental activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Assets not being depreciated:				
Land	\$ 342,200	\$ -	\$ -	\$ 342,200
Capital assets being depreciated:				
Building and building improvements	\$ 13,311,017	\$ 1,989,209	\$ -	\$ 15,300,226
Land improvements	713,162	-	-	713,162
Buses and other vehicles	1,093,824	78,076	-	1,171,900
Furniture and equipment	450,995	97,103	-	548,098
Subtotal	<u>\$ 15,568,998</u>	<u>\$ 2,164,388</u>	<u>\$ -</u>	<u>\$ 17,733,386</u>
Accumulated depreciation:				
Building and building improvements	\$ 4,758,078	\$ 222,751	\$ -	\$ 4,980,829
Land improvements	475,268	24,015	-	499,283
Buses and other vehicles	729,754	83,012	-	812,766
Furniture and equipment	183,993	38,448	-	222,441
Subtotal	<u>\$ 6,147,093</u>	<u>\$ 368,226</u>	<u>\$ -</u>	<u>\$ 6,515,319</u>
Net capital assets being depreciated	<u>\$ 9,421,905</u>			<u>\$ 11,218,067</u>
Net capital assets	<u>\$ 9,764,105</u>			<u>\$ 11,560,267</u>

Depreciation expense was not charged to activities as the district considers its assets to impact multiple activities and allocation is not practical.

NOTE 9. LONG-TERM DEBT

The school district issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the school district. Other long-term obligations include severance pay.

Long-term obligation activity can be summarized as follows:

	Beginning			Ending	Due Within
	Balance	Additions	Reductions	Balance	One Year
<i>Governmental Activities:</i>					
Bonds	\$ 7,497,669	\$ 3,875,000	\$ (340,000)	\$ 11,032,669	\$ 530,000
Notes Payable	112,325	-	(19,468)	92,857	19,468
Total bonds and notes payable	<u>\$ 7,609,994</u>	<u>\$ 3,875,000</u>	<u>\$ (359,468)</u>	<u>\$ 11,125,526</u>	<u>\$ 549,468</u>
Severance pay contract	\$ 536,673	\$ -	\$ (179,058)	\$ 357,615	\$ 178,807
Total other obligations	<u>\$ 536,673</u>	<u>\$ -</u>	<u>\$ (179,058)</u>	<u>\$ 357,615</u>	<u>\$ 178,807</u>
Total Long-term debt and other	<u>\$ 8,146,667</u>	<u>\$ 3,875,000</u>	<u>\$ (538,526)</u>	<u>\$ 11,483,141</u>	<u>\$ 728,275</u>

Annual debt service requirements to maturity for the above Governmental bond and note obligations are as follows:

	<i>Governmental Activities:</i>		
	Principal	Interest	Total
2005	\$ 549,468	\$ 320,425	\$ 869,893
2006	612,024	326,261	938,285
2007	585,724	290,577	876,301
2008	600,500	272,669	873,169
2009	646,025	252,906	898,931
Thereafter	<u>8,131,785</u>	<u>1,198,576</u>	<u>9,330,361</u>
	<u>\$ 11,125,526</u>	<u>\$ 2,661,414</u>	<u>\$ 13,786,940</u>

NOTE 9. LONG-TERM DEBT (CONCLUDED)

Governmental Activities:

General obligation bonds consist of:

\$7,415,000-1997 Refunding Bonds (general obligation-unlimited tax); payable in annual installments of \$55,000 to \$550,000 beginning 5/1/01 through 5/1/18; interest at 4.0% to 5.05%. \$ 6,525,000

\$3,875,000-2003 School Building and Site Bond(general obligation-unlimited tax) payable in annual installments of \$175,000 to \$450,000 beginning 5/1/05; interest at 2.5% to 4.35%. 3,875,000

\$500,000-2002 School Improvement Bonds (general obligation-limited tax) Qualified Zone Academy Bonds; payable in one installment on 9/16/16; 0% interest. 500,000

\$207,667-1998 School Improvement Bonds(durant non-plaintiff); payable in annual installments of \$14,580 to \$68,816 beginning 5/15/01 through 5/15/13; interest at 3.5% to 5.25%. 132,669

Total bonds payable \$ 11,032,669

Non-interest bearing notes payable to the United States Environmental Protection Agency:

Note #87520401, dated 5/25/87; payable semi-annually of \$2,500; due July 2007. \$ 10,053

Note #85744601, dated 4/17/92; payable semi-annually of \$2,500; due May 2007 10,675

Note #85845301, dated 4/16/93; payable semi-annually of \$4,734; due May 2013. 72,129

Total notes payable \$ 92,857

Total long-term debt \$ 11,125,526

Durant Non-Plaintiff Bond - Included in Governmental Activities General Obligation Bonds is the Durant Non-Plaintiff Bond. Annual total payments (principal and interest) of \$14,850 to \$68,816 associated with this Bond are funded by the State of Michigan via specifically appropriated State Aid and will not require any District debt levy or utilization of any other district financial resources.

NOTE 10. RISK MANAGEMENT

The School District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The School District has purchased commercial

NOTE 10. RISK MANAGEMENT, (CONCLUDED)

insurance for health claims and participates in the SET/SEG (risk pool) for claims relating to workers' compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan. Member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 11. DEFINED BENEFIT PENSION PLAN AND POST RETIREMENT BENEFITS

Plan Description - The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the District. The system provides retirement, survivor and disability benefits to plan members and their beneficiaries. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30673, Lansing, MI 48909-8103.

Funding Policy - Employer contributions to the system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis.

The pension benefit rate totals 12.99 percent for the period July 1, 2003 through September 30, 2003 and 12.99 percent for the period October 1, 2003 through June 30, 2004 of the covered payroll to the plan. Basic plan members make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The District's contributions to the MPERS plan for the years ended June 30, 2004, 2003, and 2002 were \$1,013,134, \$1,026,972 and \$939,618, respectively.

Post Employment Benefits - Under the MPERS Act, all retirees participating in the MPERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverage's contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverage's. Required contributions for post employment health care benefits are included as part of the District's total contribution to the MPERS plan discussed above.

**REQUIRED SUPPLEMENTAL
INFORMATION**

BUCHANAN COMMUNITY SCHOOLS

REQUIRED SUPPLEMENTARY SCHEDULE
BUDGETARY COMPARISON SCHEDULE — GENERAL FUND
JUNE 30, 2004

	Original Budget	Final Amended Budget	Actual
Revenues			
Property taxes	\$ 1,273,177	\$ 1,273,177	\$ 1,234,094
Local sources	122,300	158,165	185,268
State sources	10,314,148	10,315,135	10,513,358
Federal sources	330,378	315,893	508,641
Interdistrict sources	159,000	192,000	199,086
Earnings on investments	30,000	20,000	21,019
Total Revenues	\$ 12,229,003	\$ 12,274,370	\$ 12,661,466
Expenditures - Current			
Instruction:			
Elementary	\$ 2,162,487	\$ 2,223,276	\$ 2,367,792
Middle School	1,159,208	1,184,225	1,252,650
High School	1,517,648	1,623,029	1,557,902
Preschool	119,453	199,076	235,909
Summer School	26,737	17,086	47,867
Special Education	300,020	312,084	911,914
Compensatory Education	280,367	172,180	24,801
Technical Education	341,928	330,701	326,350
Alternative Education	50,023	50,768	52,757
Pupil Services	1,492,479	1,486,462	868,616
Supporting services:			
Improvement of instruction	180,989	55,384	105,519
Library	328,967	317,805	321,808
Direction of instructional staff	41,922	42,761	98,711
Board of education	38,150	38,150	33,194
Executive	203,791	207,323	215,603
Principal	965,436	870,162	837,522
Business	829,083	766,719	697,768
Operations	1,285,680	1,294,009	1,454,283
Pupil transportation	611,522	618,115	583,676
Other pupil activity	-	-	5,050
Community services	135,502	127,298	121,797
Debt service	-	-	-
Capital outlay	-	-	78,076
Intergovernmental payments	164,189	119,800	118,925
Total Expenditures	\$ 12,235,581	\$ 12,056,413	\$ 12,318,490
Excess (Deficiency) of Revenues over Expenditures	\$ (6,578)	\$ 217,957	\$ 342,976
Other Financing Sources (Uses)			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	(190,500)	(190,500)	(192,620)
Total other financing sources (uses)	\$ (190,500)	\$ (190,500)	\$ (192,620)
Net Change in Fund Balances	\$ (197,078)	\$ 27,457	\$ 150,356
Fund Balances - Beginning of year	2,528,807	2,528,807	2,528,807
Fund Balances - End of year	\$ 2,331,729	\$ 2,556,264	\$ 2,679,163

BUCHANAN COMMUNITY SCHOOLS**REQUIRED SUPPLEMENTARY SCHEDULE****BUDGETARY COMPARISON SCHEDULE — 2003 BUILDING & SITE BOND CAPITAL PROJECTS FUND****JUNE 30, 2004**

	Original	Budget	Final Amended	Actual
			Budget	
Revenues				
Earnings on investments	\$	-	\$	14,632
Total Revenues	\$	-	\$	14,632
Expenditures - Current				
Capital outlay	\$	-	\$	1,896,135
Total Expenditures	\$	-	\$	1,896,135
Deficiency of Revenues under Expenditures	\$	-	\$	(1,881,503)
Other Financing Sources (Uses)				
Proceeds from issuance of bonds	\$	-	\$	3,875,000
Interest and fees		-	-	(38,500)
Total other financing sources (uses)	\$	-	\$	3,836,500
Net Change in Fund Balances	\$	-	\$	1,954,997
Fund Balances - Beginning of year		-	-	-
Fund Balances - End of year	\$	-	\$	1,954,997

**OTHER SUPPLEMENTAL
INFORMATION**

BUCHANAN COMMUNITY SCHOOLS

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2004

	Athletics Fund	Food Service Fund	2002 QZAB Bonds Capital Projects Fund	Building & Site Capital Projects Fund	2003 Building & Site Bonds Debt Retirement Fund	1992 Debt Service Fund	1997 Debt Service Fund	2002 QZAB Bonds Debt Retirement Fund	Total Nonmajor Governmental Funds
Assets									
Cash and investments	\$ 2,773	\$ 166,413	\$ -	\$ 8,025	\$ -	\$ -	\$ 602	\$ -	\$ 177,813
Cash-restricted	-	-	-	-	-	-	-	32,254	32,254
Receivables	-	-	-	-	-	-	-	-	-
Due from other governmental units	-	4,360	-	-	-	-	-	-	4,360
Due from other governmental funds	-	-	29,847	167,537	97,513	147,617	316,686	-	759,200
Inventories	-	5,351	-	-	-	-	-	-	5,351
Prepaid expenditures	-	-	-	-	-	-	-	-	-
Total Assets	<u>\$ 2,773</u>	<u>\$ 176,124</u>	<u>\$ 29,847</u>	<u>\$ 175,562</u>	<u>\$ 97,513</u>	<u>\$ 147,617</u>	<u>\$ 317,288</u>	<u>\$ 32,254</u>	<u>\$ 978,978</u>
Liabilities and Fund Balances									
Liabilities									
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued salaries and withholdings	-	3,197	-	-	-	-	-	-	3,197
Due to other governmental funds	-	-	-	-	-	-	-	-	-
Total Liabilities	<u>\$ -</u>	<u>\$ 3,197</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,197</u>
Fund Balance									
Reserved for inventories	\$ -	\$ 5,351	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,351
Reserved for debt service	-	-	-	-	97,513	147,617	317,288	32,254	594,672
Reserved for capital projects	-	-	29,847	175,562	-	-	-	-	205,409
Unreserved and undesignated	-	-	-	-	-	-	-	-	-
Unreserved and undesignated - food	-	167,576	-	-	-	-	-	-	167,576
Unreserved and undesignated - athletics	2,773	-	-	-	-	-	-	-	2,773
Total Fund Balance	<u>\$ 2,773</u>	<u>\$ 172,927</u>	<u>\$ 29,847</u>	<u>\$ 175,562</u>	<u>\$ 97,513</u>	<u>\$ 147,617</u>	<u>\$ 317,288</u>	<u>\$ 32,254</u>	<u>\$ 975,781</u>
Total Liabilities and Fund Balance	<u>\$ 2,773</u>	<u>\$ 176,124</u>	<u>\$ 29,847</u>	<u>\$ 175,562</u>	<u>\$ 97,513</u>	<u>\$ 147,617</u>	<u>\$ 317,288</u>	<u>\$ 32,254</u>	<u>\$ 978,978</u>

BUCHANAN COMMUNITY SCHOOLS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2004

	Athletics Fund	Food Service Fund	2002 QZAB Bonds Capital Projects Fund	Building & Site Capital Projects Fund	2003 Building & Site Bonds Debt Retirement Fund	1992 Debt Service Fund	1997 Debt Service Fund	2002 QZAB Bonds Debt Retirement Fund	Total Nonmajor Governmental Funds
Revenues									
Property taxes	\$ -	\$ -	\$ -	\$ 157,216	\$ 201,619	\$ -	\$ 645,245	\$ -	\$ 1,004,080
Local sources	57,811	275,954	-	-	-	-	-	-	333,765
State sources	-	26,094	-	-	-	-	-	-	26,094
Federal sources	-	275,800	-	-	-	-	-	-	275,800
Interdistrict sources	-	-	-	-	-	-	-	-	-
Earnings on investments	19	680	-	29	-	-	908	-	1,636
Total Revenues	<u>\$ 57,830</u>	<u>\$ 578,528</u>	<u>\$ -</u>	<u>\$ 157,245</u>	<u>\$ 201,619</u>	<u>\$ -</u>	<u>\$ 646,153</u>	<u>\$ -</u>	<u>\$ 1,641,375</u>
Expenditures									
Current:									
Instruction services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Supporting services	247,677	544,711	-	30,256	-	-	-	-	822,644
Community services	-	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	91,599	98,578	-	-	-	-	190,177
Intergovernmental payments	-	-	-	-	-	-	-	-	-
Total Expenditures	<u>\$ 247,677</u>	<u>\$ 544,711</u>	<u>\$ 91,599</u>	<u>\$ 128,834</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,012,821</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (189,847)</u>	<u>\$ 33,817</u>	<u>\$ (91,599)</u>	<u>\$ 28,411</u>	<u>\$ 201,619</u>	<u>\$ -</u>	<u>\$ 646,153</u>	<u>\$ -</u>	<u>\$ 628,554</u>
Other Financing Sources (Uses)									
Operating transfers in	\$ 192,620	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,254	\$ 224,874
Proceeds from the issuance of bonds	-	-	-	-	-	-	-	-	-
Payment to bond escrow agent									
Principal	-	-	-	-	-	-	(340,000)	-	(340,000)
Interest and fees	-	-	-	-	(104,106)	-	(339,358)	-	(443,464)
Operating transfers out	-	-	-	(32,254)	-	-	-	-	(32,254)
Total Other Financing Sources (Uses)	<u>\$ 192,620</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (32,254)</u>	<u>\$ (104,106)</u>	<u>\$ -</u>	<u>\$ (679,358)</u>	<u>\$ 32,254</u>	<u>\$ (590,844)</u>
Net Change in Fund Balances	<u>\$ 2,773</u>	<u>\$ 33,817</u>	<u>\$ (91,599)</u>	<u>\$ (3,843)</u>	<u>\$ 97,513</u>	<u>\$ -</u>	<u>\$ (33,205)</u>	<u>\$ 32,254</u>	<u>\$ 37,710</u>
Fund Balances - Beginning of year	<u>-</u>	<u>139,110</u>	<u>121,446</u>	<u>179,405</u>	<u>-</u>	<u>147,617</u>	<u>350,493</u>	<u>-</u>	<u>938,071</u>
Fund Balances - End of year	<u><u>\$ 2,773</u></u>	<u><u>\$ 172,927</u></u>	<u><u>\$ 29,847</u></u>	<u><u>\$ 175,562</u></u>	<u><u>\$ 97,513</u></u>	<u><u>\$ 147,617</u></u>	<u><u>\$ 317,288</u></u>	<u><u>\$ 32,254</u></u>	<u><u>\$ 975,781</u></u>

**SINGLE AUDIT
INFORMATION**

BUCHANAN COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Grantor/Pass Through Grantor/Program Title	Federal C.F.D.A. #	Source Code and Project Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2003	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued (Deferred) Revenue June 30, 2004	Adjustments
<i>U.S Department of Education</i>									
<i>Passed through Michigan Department of Education:</i>									
Title I-Grants to Local Education Agencies	84.010	031530 0203	\$ 256,415	\$ 26,915	\$ 256,415	\$ -	\$ (26,915)	\$ -	\$ -
Title I-Grants to Local Education Agencies	84.010	041530 0304	199,286	-	-	199,286	(168,200)	31,086	-
Subtotal			<u>\$ 455,701</u>	<u>\$ 26,915</u>	<u>\$ 256,415</u>	<u>\$ 199,286</u>	<u>\$ (195,115)</u>	<u>\$ 31,086</u>	<u>\$ -</u>
Title V-LEA Allocation	84.298	030250 0203	\$ 4,016	\$ -	\$ 3,900	\$ 116	\$ (116)	\$ -	\$ -
Title V-LEA Allocation	84.298	030250 0304	1,387	-	-	1,387	(1,387)	-	-
Title V-LEA Allocation	84.298	040250 0304	5,983	-	-	4,714	(3,360)	1,354	-
Subtotal			<u>\$ 11,386</u>	<u>\$ -</u>	<u>\$ 3,900</u>	<u>\$ 6,217</u>	<u>\$ (4,863)</u>	<u>\$ 1,354</u>	<u>\$ -</u>
Technology Literacy Challenge Grants	84.318	04290 0203	\$ 5,104	\$ -	\$ 5,000	\$ 104	\$ (104)	\$ -	\$ -
Technology Literacy Challenge Grants	84.318	034290 0304	2,294	-	-	2,294	(2,294)	-	-
Technology Literacy Challenge Grants	84.318	034290 0203	4,819	-	-	1,408	(860)	548	-
Subtotal			<u>\$ 12,217</u>	<u>\$ -</u>	<u>\$ 5,000</u>	<u>\$ 3,806</u>	<u>\$ (3,258)</u>	<u>\$ 548</u>	<u>\$ -</u>
Title II A-Improving Teacher Quality	84.367	030520 0203	\$ 77,424	\$ 13,262	\$ 74,562	\$ 2,862	\$ (16,124)	\$ -	\$ -
Title II A-Improving Teacher Quality	84.367	030520 0304	330	-	-	330	(330)	-	-
Title II A-Improving Teacher Quality	84.367	040520 0304	76,689	-	-	76,689	(55,800)	20,889	-
Subtotal			<u>\$ 154,443</u>	<u>\$ 13,262</u>	<u>\$ 74,562</u>	<u>\$ 79,881</u>	<u>\$ (72,254)</u>	<u>\$ 20,889</u>	<u>\$ -</u>
Subtotal passed through Michigan Department of Education			<u>\$ 633,747</u>	<u>\$ 40,177</u>	<u>\$ 339,877</u>	<u>\$ 289,190</u>	<u>\$ (275,490)</u>	<u>\$ 53,877</u>	<u>\$ -</u>
<i>Passed through Berrien County Intermediate School District</i>									
Safe and Drug-Free Schools and Communities	84.186	2004	\$ 6,232	\$ -	\$ -	\$ 6,232	\$ (6,232)	\$ -	\$ -
Technology Literacy Challenge Grants	84.318	2004	\$ 203,000	\$ -	\$ -	\$ 203,000	\$ (203,000)	\$ -	\$ -
Vocational Education-Perkins II	84.048	2004	\$ 10,219	\$ -	\$ -	\$ 10,219	\$ (10,219)	\$ -	\$ -
Subtotal passed through Berrien County Intermediate School District			<u>\$ 219,451</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 219,451</u>	<u>\$ (219,451)</u>	<u>\$ -</u>	<u>\$ -</u>
Total Department of Education			<u>\$ 853,198</u>	<u>\$ 40,177</u>	<u>\$ 339,877</u>	<u>\$ 508,641</u>	<u>\$ (494,941)</u>	<u>\$ 53,877</u>	<u>\$ -</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

BUCHANAN COMMUNITY SCHOOLS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

Federal Grantor/Pass Through Grantor/Program Title	Federal C.F.D.A. #	Source Code and Project Number	Approved Grant Award Amount	Accrued or (Deferred) Revenue July 1, 2003	(Memo Only) Prior Year Expenditures	Current Year Expenditures	Current Year Receipts (Cash Basis)	Accrued or (Deferred) Revenue June 30, 2004	Adjustments
<i>U.S Department of Agriculture</i>									
<i>Passed through Michigan Department of Education:</i>									
Food Distribution:									
Bonus Commodities	10.550	n/a	\$ 4,684	\$ -	\$ -	\$ 4,684	\$ (4,684)	\$ -	\$ -
Entitlement Commodities	10.550	n/a	24,763	(1,929)	-	24,763	(24,763)	(1,929)	-
Subtotal			<u>\$ 29,447</u>	<u>\$ (1,929)</u>	<u>\$ -</u>	<u>\$ 29,447</u>	<u>\$ (29,447)</u>	<u>\$ (1,929)</u>	<u>\$ -</u>
National School Lunch Program:									
Special Milk	10.556*	1940	\$ 2,329	\$ -	\$ -	\$ 2,329	\$ (2,329)	\$ -	\$ -
Section 4	10.555*	1950	\$ 37,951	\$ -	\$ -	\$ 37,951	\$ (37,951)	\$ -	\$ -
Section 11	10.555*	1960	156,318	-	-	156,318	(156,318)	-	-
			<u>\$ 194,269</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 194,269</u>	<u>\$ (194,269)</u>	<u>\$ -</u>	<u>\$ -</u>
School Breakfast Program:									
Breakfast	10.553*	1970	\$ 49,755	\$ -	\$ -	\$ 49,755	\$ (49,755)	\$ -	\$ -
Total Department of Agriculture			<u>\$ 275,800</u>	<u>\$ (1,929)</u>	<u>\$ -</u>	<u>\$ 275,800</u>	<u>\$ (275,800)</u>	<u>\$ (1,929)</u>	<u>\$ -</u>
Total Federal Assistance			<u>\$ 1,128,998</u>	<u>\$ 38,248</u>	<u>\$ 339,877</u>	<u>\$ 784,441</u>	<u>\$ (770,741)</u>	<u>\$ 51,948</u>	<u>\$ -</u>

* These programs are included in the Child Nutrition Cluster according to the OMB Compliance Supplement.

See accompanying notes to Schedule of Expenditures of Federal Awards.

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses a unqualified opinion on the financial statements of the Buchanan Community Schools.
2. One reportable condition disclosed during the audit of the financial statements is reported in the "Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*".
3. No instances of noncompliance material to the financial statements of the Buchanan Community Schools were discovered during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements Applicable to Each Major program and Internal Control over Compliance in Accordance with OMB Circular A-133".
5. The auditor's report on compliance for the major federal award programs for the Buchanan Community Schools expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the Buchanan Community Schools.
7. The programs tested as major programs included: Technology Literacy Grants 84.318.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Buchanan Community School was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT**CURRENT YEAR****04.1 Segregation of duties:**

Condition: The district lacks an appropriate segregation of duties conducive to an effective internal control structure.

Criteria: Internal controls should be in place to effectively segregate those duties of individuals that have both control over safeguarding the assets and financial recording of the assets.

Effect: Because of the lack of segregation of duties, the assets of the district are susceptible to theft or loss.

Recommendation: We understand this is primarily due to financial constraints, but continued monitoring by management and the board should help reduce the possible risk of loss.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (CONCLUDED)

Response: We concur with the recommendation and will continue to monitor all employees who have both the safeguarding and recording of the district's assets within our financial boundaries.

PRIOR YEAR

Same as above.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

CURRENT AND PRIOR YEAR

None

BUCHANAN COMMUNITY SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2004

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation:

The accompanying schedule of expenditures of federal awards is a summary of the cash activity of the Buchanan Community School's (the District) federal award programs and also presents those transactions that would be included in the financial statements of the District presented on the accrual basis of accounting, as contemplated by generally accepted accounting principles.

NOTE 2. EXPENDITURES AND FINANCIAL REPORTS

The expenditures in this schedule of federal financial awards are considered necessary and reasonable for the proper administration of the related programs and are in agreement with the amounts reported in the financial statements and the related financial reports submitted to the Michigan State Department of Education. The financial reports that have been submitted are timely, complete, accurate, and contain information that is supported by the records from which the basic financial statements have been prepared.

NOTE 3. R7120 (GRANTS SECTION AUDITORS REPORT)

The amounts reported on the R7120 (Grants Section Auditors Report) have been utilized to prepare the Schedule of Expenditures of Federal Awards and reconciles with the schedule as follows:

	<u>Amount</u>
Current year receipts reported on the Schedule of Expenditures of Federal Awards	\$ 770,741
Less:	
Items passed through B.C.I.S.D.	(219,451)
Food distribution commodities	(29,447)
Plus:	
State Grant Project #006650 81	8,136
State Grant Project #026320 M-24	4,709
Current year receipts reported on the R7120	<u><u>\$ 534,688</u></u>

NOTE 4. FOOD DISTRIBUTION

The amounts reported on the Recipient Entitlement Balance Report (PAL report), agree with this schedule for USDA donated food commodities and are reported in the cash receipts column. Spoilage or pilferage, if any, is included in expenditures.

BUCHANAN COMMUNITY SCHOOLS**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004****NOTE 5. LOANS**

The District has received various loans from the EPA under the Asbestos Hazard Emergency Response Act. The values of those loans outstanding at June 30, 2004 are as follows:

<u>Note #</u>	<u>Amount</u>
85845301	\$ 72,128
85744601	10,675
87520401	10,053
	<u>\$ 92,856</u>

NOTE 6. SCHEDULE OF RECONCILIATION OF REVENUES WITH EXPENDITURES FOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

The actual Federal source revenues amounted to \$784,441 per the audit of the financial statements. The related expenditures are composed of the following:

	<u>Amount</u>
Actual cash expenditures	\$ 754,994
Entitlement commodities used	4,684
Bonus commodities used	24,763
	<u>\$ 784,441</u>

NOTE 7. SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE PROVIDED TO SUB-RECIPIENTS

None for the current year.



**To the Board of Education
Buchanan Community Schools
Buchanan, Michigan**

In planning and performing our audit of the financial statements of Buchanan Community Schools (the "School") for the year ended June 30, 2004, we considered the School's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we considered reportable conditions under standards established the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the School's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements.

Control over cash transactions is limited because of insufficient segregation of duties due to limited personnel. Management feels adequate segregation of duties is not practical because the hiring of additional personnel is not warranted from a cost-benefit standpoint.

We also noted the following for your attention:

Activities Operating within the District

We offer as a general comment, that the District takes a look at any Organizations operating within the District and utilizing the umbrella of the District's identification number. These Organizations, if not already included with trust and agency accounts of the District, should be brought under that fiduciary responsibility or form as a separate 501(c)(3) Organization with their own federal identification number.

Mileage Reimbursement Policy

During the course of our audit procedures, we noted that the there were various requests made for mileage reimbursements ranging from .31¢ to .34¢. We recommend that the District develop a consistent policy with prescribed IRS guidelines that all employees will receive the same reimbursement amount on their requests.

Adoption of Policy for Personal Use of District Assets

In general, we noted that many of the District employees utilize assets that the District owns, i.e. cell phones, computers, etc...We recommend the District adopt a policy indicating what is and is not allowed for personal use on these assets and what the District expects from the employee if they are used for personal use.

We would be happy to discuss these recommendations and comments with you at your convenience. We would also like to express our appreciation for the courtesy and cooperation extended to us during the engagement.

This report is intended solely for the information and use of the Board of Education, management, and others within the School District.

McMurray, Marks & Edmunds

McMurray, Marks & Edmunds
St. Joseph, Michigan
August 20, 2004